

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: April 26, 2010
POSITION: Oppose
SPONSOR: New America Foundation

BILL NUMBER: AB 2581
AUTHOR: S. Bradford

BILL SUMMARY: Banking Development Districts

This bill would:

- Create the Banking Development District Program within the State Treasurer's Office (STO) that would encourage the establishment of banking branches that provide needed products and services in specifically designated geographic locations where there is an underserved community.
- Require the STO and Department of Financial Institutions (DFI) to set forth selection criteria, evaluate and approve applications, and designate banking development districts (BDD).
- Require the STO and DFI to adopt rules and regulations for the establishment and maintenance of BDDs.
- Direct the STO and DFI to create a performance review process for the program.

FISCAL SUMMARY

This bill would result in startup costs of \$111,600 for 2010-11, costs of \$423,000 annually (\$291,000 General Fund) to fund the program, and require additional staff to meet the requirements of this bill.

COMMENTS

Finance opposes this bill for the following reasons:

- This bill is contrary to DFI's mission to ensure the fiscal soundness of banks and credit unions through regular examinations.
- The BDD program is intended to help the underserved communities to have access to enhanced banking services; however, there is evidence to show that a similar program in the state of New York (established in 1998) has not been able to achieve the desired outcome.
- A number of financial institutions are already participating voluntarily in programs to provide banking to the underserved in many cities throughout the state.
- This bill would result in projected costs of \$534,600 (\$291,000 General Fund) in 2010-11 to fund staffing and related program costs at a time when the state's finances are already constrained.
- This bill does not provide fees, appropriation authority, or position authority.
- It is unclear what types of incentives can be offered and at what cost to the state.

Analyst/Principal (0190) G. Bruss	Date	Program Budget Manager Veronica Chung-Ng	Date
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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

BILL ANALYSIS	Form DF-43 (Rev 03/95 Buff)
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ANALYSIS**A. Programmatic Analysis**

This bill requires the creation of a new program (BDD) within the STO to oversee the establishment of banking services and designate banking development districts. This bill also requires the STO and DFI to compile a list of underserved communities, set forth selection criteria to evaluate banks, adopt rules and regulations for establishment and maintenance of banking development districts, as well as create a performance review process to ensure that banks are meeting their goals and initiatives.

This bill is contrary to DFI's mission to ensure the fiscal soundness of banks and credit unions through regular examinations. DFI's mission is not to collaborate in provision of banking services to underserved communities. Given the current state of the banking industry, it is more important for DFI to focus on mission critical priorities rather than take on other responsibilities that are likely to detract them from their mission.

A similar program was established in New York in 1998; however, according to a 2006 Wall Street Journal Article, Citi Bank executives acknowledged that without below-market-deposit rate deposits from the city and state, the bank was likely to continue incurring losses.

Additionally, a number of financial institutions working in collaboration with Bank on California are already voluntarily participating in programs to provide banking to the underserved in a number of cities throughout the state. Bank on California is a collaborative, voluntary initiative helping more low- and middle-income Californians establish savings, build credit history, gain access to lower cost sources of credit, and invest in the future. This bill would be duplicative and is likely to add another layer to existing state bureaucracy and cost.

B. Fiscal Analysis

This bill would result in additional costs for the STO and DFI as more staff and resources would be required to meet the requirements of this bill.

DFI estimates it will cost \$132,000 annually (\$36,000 to review applications and \$96,000 to review for performance). Additionally it will cost them \$111,600 on a one-time basis (\$75,000 to develop a list of underserved communities, \$30,600 to develop regulations, and \$6,000 to develop a performance review process). STO staff is still working on their analysis; however, they have provided a very preliminary cost estimate of \$291,000 General Fund for three positions.

Additionally, this bill does not provide fee/appropriation or position authority. It would appear that the STO and DFI would need to divert resources from existing workload to implement the bill's provisions.

This bill would require the STO and DFI to provide a range of incentives to help banks overcome short-term costs that may prevent banks from offering product that may have long term potential. It is unclear what these incentives should be and how they will impact the state through direct and indirect costs. The STO is mandated to maximize returns on investment and some of these incentives may create a situation that conflicts with the investment goals of the STO.

AUTHOR

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		SO	(Fiscal Impact by Fiscal Year)							
Code/Department	LA	(Dollars in Thousands)								
Agency or Revenue	CO	PROP								Fund
Type	RV	98	FC	2009-2010	FC	2010-2011	FC	2011-2012		Code
0950/St Treasurer	SO	No		--	C	\$291	C	\$291		0001
2150/Finan Instit	SO	No		--	C	\$244	C	\$132		0298
<u>Fund Code</u>	<u>Title</u>									
0001	General Fund									
0298	Financial Institutions Fund									